

HEALTH & ACCIDENT CONFERENCE NUMBER

A black and white photograph of the National Bureau of Standards building. The building is a large, multi-story structure with a prominent central section and a flag flying on a tall pole in front. The building has a modern, rectangular design with many windows. The text "NATIONAL BUREAU OF STANDARDS" is visible on the building's facade. The building is surrounded by a lawn and some trees. A street with a few people and a car is visible in the foreground.

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Finds "Regimented Confusion" on Regulation Issue

One-Way Road Found in Dealings with Commissioners, Kemper Says

Vigorous criticism of insurance department administration as conducted in some of the states was voiced by George W. Kemper, Fireman's Fund Indemnity, in his address as conference president. He cited the story of the army captain who, when asked by a private, "What is a coordinator?" replied: "A coordinator is an individual who works out a program of organized chaos from a condition of regimented confusion." In connection with present regulatory action, he expressed the feeling that with 48 insurance departments and 48 different interpretations as to what constitutes proper regulation, "our industry situation approaches 'a condition of regimented confusion.'"

"It has seemed to me that in our meetings with insurance department officials from time to time that it has been pretty much a one-way road," Mr. Kemper said. "It has seemed to me that the departments have consistently used the approach that everything was in the public interest and never a mention of anything in the industry interest. It has seemed to me that many proposals made by departments are born in the minds of career men entirely without any knowledge of the insurance business and largely without any business experience either. Sincere as these men are, it would seem to me that the personal elements that make a good administrator would require industry cooperation and consultation before the issuance of a departmental ruling rather than after."

Rulings Made, Then Withdrawn

He cited as an excellent example of what can be accomplished the recent proposal of Insurance Director Stone of Nebraska on the matter of loss ratios and experience data. "One cannot help but be impressed by the soundness of his request nor was there industry objection to that request because he had consulted with industry and had made the regulation so that it could be complied with at minimum expense and on a basis that can readily be met by the companies," Mr. Kemper commented. "I have seen, as have you, regulations issued by departments only to be withdrawn or drastically amended after industry pressure has required a cooperative study of the problem. It does not impress one with a feeling of good administration where rulings once made must within a few days or weeks be withdrawn."

Mr. Kemper said that there should exist (and it does in many instances) such a feeling of confidence between industry and the various departments that problems such as minimum benefits, minimum standards, policy approvals, unfair practices, etc., can and must be worked out on the basis of cooperation between industry and the department.

He referred to the statement sometimes made by commissioners: "I haven't the power to regulate that, I need more authority under the law."

(CONTINUED ON PAGE 10)

Downey Asks for Attack on A. & H. Trouble Spots

A lively interchange on the respective responsibilities of the companies and the insurance departments in the accident and health field marked the Monday afternoon session. Commissioner Downey of California told the companies what they should do and W. Russell Arrington, vice-president and general counsel of Combined of Chicago, who is also vice-chairman of the house insurance committee in the Illinois legislature, came back with some rather tart suggestions as to what the commissioners should and should not do. Mr. Downey was quite mild in his comments as compared with other recent utterances and comparatively most of the points in the program that he set forth were of a character to which the industry generally would take very few exceptions.

SAN FRANCISCO — Commissioner Downey of California, in his address at the Monday afternoon general session threw the spotlight on practices in the A. & H. field that he said are indulged in by a handful of companies, but that tend to discredit the entire business.



Wallace Downey

He concluded by recommending that the insurers do their underwriting before they deliver the policy, not when a claim is filed. He counseled broadening the coverage to include hazards of normal occurrence, to cut down restrictions and exclusions, to give reasonable benefits in the light of the value of the post-war dollar.

Also, to improve the character and the knowledge of the agency force and put an end to high pressure sales methods and misleading advertising, lend aid in stamping out fraudulent medical benefit societies, work with the medical profession to stamp out the practice of charging unreasonable fees to persons who have insurance, and reform or force out of business the small group that degrades the reputation of the entire industry.

Troublesome Ten

The A. & H. field, he said, furnishes 70% of the complaints that are made to the department and not more than 10 companies produce three quarters of these complaints. It is a shame, he said, that the reputation of such an important field of insurance should be adversely affected by such a small group.

The average complainant does not object to reasonable underwriting restrictions, but feels that once the insurer has issued a policy it should pay all claims for hazards insured thereunder and that there should be no escape from the general intention of coverage of reasonable hazard by any catch phrases or restrictions or exclusions.

Many complaints are caused by unsound underwriting, he said. Companies that underwrite conscientiously take a negative position on claims very infrequently, and then only for a good cause, whereas the companies that cause the trouble start their underwriting the moment a claim is filed, and not before. Proper investigation should be made before the issuance of the policy so that bad risks are eliminated then and not at the time of claim. If there is fraud or mistake on the part of an applicant by reason of prior existing physical condition or some similar cause, it should be

discovered initially and not after a policy has been issued and premiums have been paid and reliance has been placed upon the protection.

No one expects insurers to give broad coverage for nothing. The rate should be commensurate with the hazard. If a policy is sold at so low a price that nearly all of it is consumed in expenses of sale and overhead, it is economically unsound and socially worthless, he declared.

The troublesome companies, he said, engage in high pressure sales campaigns. The salesmen are often unscrupulous, their advertising is of the flash type, some of them pay large commissions on the first year premium, and this creates a temptation to the salesman to misrepresent policies in order to make sales. They have little interest in renewals and many of them deliberately twist a customer from one company to

Pennsylvania L. H. & A. was admitted to conference membership.

The next annual meeting will be held at the Edgewater Beach Hotel, Chicago, May 16-18, 1949.

another every year so as to get initial commissions.

California, he said, is plagued by a type of organization that operates beyond the insurance realm and that purports to grant benefits by way of reduction in medical fees, to give laboratory service at reduced rates and to give medical examinations to members of the group. These organizations have little in the way of assets and have no agreements with doctors, hospitals or laboratories. Their proprietors are often "judgment-proof dead-beats." The authorities so far have been unable to cope with their activities due to the difficulty of getting evidence of promises made orally, and of establishing an agency relationship between the salesmen and their principals.

Mr. Downey asked the insurance industry to aid in getting legislation to deal with this type of operator.

He also said the insurance business should investigate the practice of physicians in overcharging patients when they find that the patient has disability insurance.

Arrington Resents Compulsion

Mr. Arrington particularly resented "compulsions to work with the state departments, based on threats that legislation will be sought compelling practices affecting the whole industry in an effort to punish the relatively small number of companies whose practices are questionable." He said it has been demonstrated time and again that good legislation can be adopted only with the cooperation of the industry.

Insurance department regulation has been recognized by the industry generally as a device with which it can work comfortably and as serving a useful purpose. The natural tension which results from the fact that it is somewhat in conflict with the idea of free enterprise has gradually lessened over the years but that trend is not fostered when most of the attacks on accident and health insurance originate with and emanate from insurance departments.

Present Authority Sufficient

While some accident and health companies have been engaging in practices which cannot be defended and should be stopped, he expressed the opinion that

(CONTINUED ON PAGE 11)

Relations With Commissioners Big Conference Topic

Excellent Attendance at San Francisco; Skutt Takes Helm

By FRANK A. POST

SAN FRANCISCO — While public relations was the central theme of the annual meeting here of Health & Accident Underwriters Conference, the first held on the Pacific Coast since its organization in 1901, that segment of the general theme dealing with relations with insurance departments was the one which attracted the greatest interest and attention. President George W. Kemper, V. J. Skutt, later elected president, and Harold R. Gordon, managing director, all dealt with that subject, in addition to the presentation of some criticisms of the industry by Commissioner Downey of California and what was vir-



V. J. Skutt



G. W. Kemper

tually a reply to him by W. Russell Arrington, and incidental references by other speakers.

The idea of increased acceptance by the public of accident and health insurance was carried throughout the program, including the agency management session, with both company and field viewpoints represented, the latter being represented by Walter G. Gastil, general agent of Connecticut General at Los Angeles. An outside viewpoint was given by James Mussatti, general

NEW OFFICERS ELECTED

President—V. J. Skutt, Mutual Benefit Health & Accident.

Chairman executive committee—Frank L. Harrington, Massachusetts Protective.

First vice-president—Robert Neal, North American Accident.

Second vice-president—C. E. Waller, Professional.

Secretary—J. W. Scherr, Jr., Inter-Ocean.

Executive committee—George W. Kemper, Fireman's Fund Indemnity; G. A. L'Estrange, Wisconsin National Life; P. G. Korn, National Casualty; H. O. Fishback Jr., Northern Life.

manager California state chamber of commerce, whose address made an especially big hit. The entire program was very strong and ably presented.

Despite the distance that most of those attending had to come, there were more than 250 in attendance, a figure closely comparable to that at conven-

(CONTINUED ON PAGE 11)

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Should Recognize Interpretations in Improving Policies, Wetterlund Says

Improvement of policy wording so as to assure the owners of policies that the sickness or accident hazard insured against will be covered without question, and at the same time giving recognition to the manner in which policies are being interpreted by the courts and supervisory officials, was urged by R. J. Wetterlund, Washington National.



R. J. Wetterlund

Interpretations which he cited included those on house confinement, "regular" treatment by physician, accidental means, visible wound or contusion, acceptance of delayed premium payments, incontestability clause and entire and irrevocable loss of sight. Taking up some of these at more length, he said that while house confinement may have been a proper measuring stick for determining the length of an illness years ago, it does not necessarily follow that the same measuring stick may be used as efficiently in these days of improved medical and surgical procedures. While defending the right of a company to cover such hazards as it may choose and to write its own policies, he declared that "if we intend to insure against disability from accident and sickness, and if that is the kind of coverage the applicant wants we should be in a position to give it to him at an adequate premium."

Could Eliminate Many Disputes

Based on this premise, some companies have seen fit to provide illness coverage during the first six or 12 months of sickness with only a requirement of total disability, with the further provision that if the sickness continues beyond the six or 12 months, then house confinement is required. Considering that the very large percentage of all sicknesses do not disable beyond six months, he said, such a provision eliminates disputes and misunderstandings concerning the meaning of the house confinement clause in most sickness claims, and he regards it as a constructive step in the right direction.

Some companies have adopted an accidental bodily injury clause instead of using the cumbersome accidental means clause. Inasmuch as recent liberal interpretations have almost abolished the distinction between these two types of clauses, he said, the improved wording eliminates many of the questions arising heretofore.

If companies intend to cover the sunstroke, freezing, drowning and carbon

monoxide cases on the basis of accident and yet use a visible wound and contusion clause, Mr. Wetterlund suggested that the clause should be modified so that the requirement for a wound or contusion would not be applicable in those cases.

Trend Toward Grace Period

Discussions are now under way with insurance commissioners' committees as to grace periods in accident and health policies and Mr. Wetterlund feels that the trend is toward modernizing policies in this respect.

He considers that using an incontestability clause of some type would go a long way toward eliminating the abuse by a few companies in denying liability on claims filed several years or more after issuance of a policy on the ground that the origin of the sickness antedated the policy, or that there was breach of warranty in the application, and that the claim was therefore not covered.

The same goes for eye loss cases, he said. "If we mean to pay for eye loss where for all practical purposes the insured is blind, we should have no objection to saying so with appropriate language which accurately describes the degree or extent of loss of sight for which we are now paying under the present 'entire and irrevocable' wording."

Cover What Was Intended

"I am heartily in favor of improving our policies in all of these various respects which I have mentioned, and in other particulars now under discussion by joint committees working with the accident and health committee of the insurance commissioners. I say this because the result will be that we will pay for the hazards we and the applicant intended covering when the policy was issued, which in turn will result in less claims being subject to interpretation and misunderstanding. I think that all of these improvements—interpretations—can be made without restricting our sphere of operations or our freedom of contract. Certainly progressive companies trying to render a public service will not object. The comparatively few companies whose methods of operation bring criticism to all of us will object to these interpretations and modernizations but certainly they should receive no encouragement."

"Don't get me wrong—I am not advocating a blank check policy covering all accidents and sicknesses without limitation. To the contrary, if a person wants an accident only policy, a hospital policy, a travel and pedestrian policy, a ticket policy, a polio policy, or any other kind of policy he should be able to get it providing he knows and under-

(CONTINUED ON PAGE 10)



Howard Vore, Loyalty group, San Francisco; H. G. Royer, Great Northern Life; Donald R. Knowlton, New Hampshire commissioner.

Opposes "Appeasing" Compulsory Health Plan Proponents

Answer Is to Sell More Insurance to More People, Harold Gordon Says

Strong opposition to any compromise with proponents of federal or state compulsory health insurance was expressed by Harold R. Gordon, managing director, in his annual report.

"We have had a definite, consistent opinion that industry can do a better job than either a state or the federal government could do in the disability field," he said. "We have held to this principle despite tendencies of others to 'appease' proponents with a compromise which surely sooner or later will eliminate other lines of insurance from the present American system of insurance. How can we as an industry sponsor any form of government insurance?"

Referring to some of the ill-advised and impractical schemes proposed for combating federal compulsory health insurance, he said the conference has consistently maintained for many years that the only solution to the threat of government insurance is to sell more insurance to more people and expand as rapidly as possible. He mentioned that only two years ago, a well known midwestern casualty executive was responsible for promoting a "super-duper" plan of a low cost standard accident and health policy for low income workers based somewhat on the present group coverage, to be issued on a complicated national basis. He proposed to let the public buy it from any agent or "over the counter."

"This balloon was soon deflated," Mr. Gordon said, "because this executive failed to remember that a basic principle of accident and health insurance is that this coverage, like life insurance, must be sold and is not bought as are some other lines of property insurance. The conference naturally opposed this impractical scheme."

"This does not mean that the conference is a 'stand-patter' or old-guard conservative—on the contrary, we were

responsible for the broadening of group accident and health statutes in many states as early as 1935—against the opposition of many group writing companies; and in 1937 when the Illinois code was enacted there appeared for the first time a conference-sponsored family expense provision; very few companies were writing family expense policies at that time but we believed it to be an excellent way to expand our coverage to more persons; we wrote the first uniform regulatory bill which was enacted in some states in 1947.

"The conference has always been ready and has cooperated with state medical societies and hospital associations in simplifying report forms and working out state sponsored plans for medical care and hospital insurance. We were cooperating with and advising state medical societies when others had given these medical organizations a polite 'brush-off.' It has been a long time and well known conference policy to experiment and pioneer in new fields of disability coverage."

Concerted Action Opposed

While recognizing the necessity of rate regulatory laws for fire and casualty insurance as a result of the U. S. Supreme Court decision that insurance was interstate commerce, and the enactment of public law 15, he said the conference has held steadfastly to the basic principle that accident and health insurance should be competitive the same as life insurance in the matter of rates and policies and that it would suffer by rate regulation of the business.

"The conference certainly does not believe in concerted action in the matter of accident and health rates or policy forms," he declared. "The only experience along this line resulted in little, if any, increase in business from standard forms during a period when group and other non-standard accident and health policies were showing tremendous increases. Where would the accident and health business be today had group, franchise, blanket and other accident and health coverages been standardized as to rates and forms, which is another term for concerted action?" He added that the conference will furnish some factual data on this subject in the near future.

Standard Policy Not Answer

He reviewed the recent hearing on minimum benefits and said the industry naturally voiced its objection to a standard policy, which would place the business in a straitjacket or retard its remarkable progress to a degree that cannot even be anticipated. He declared that most of the commissioners agreed with the almost unanimous opinion of the industry that a standard policy is not the answer toward improving the business. He commented in that connection that accident and health insurance, in common with all businesses that have developed and grown as rapidly as it has in recent years, suffers

(CONTINUED ON PAGE 13)



Harold R. Gordon

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Discuss Agent Hiring, Training, Pay

In line with the general theme of the conference meeting, the effect on public relations of recruiting and selection, training and compensation of agents was discussed at the agency management session. James E. Scholefield, North American Life & Casualty, chairman of the conference agency management committee, had charge of that session and also discussed the question of agents compensation, pinch-hitting, as he stated, for another speaker originally scheduled to handle that topic.

Characterizing it as a controversial



J. E. Scholefield

subject, he pointed out that there are two ways in which it may affect public relations, one being the effect on distribution costs, with resultant influence on public opinion. That was one of the big points of the T.N.E.C. investigation and he predicted that it is going to crop up again. In fact it is now one of the big points of advocates of Savings Bank Life Insurance. The companies, he said, are awakening to their responsibility to the public to see that distribution dollars are spent wisely and well.

A more indirect angle, to which he devoted most of his attention, is the effect on the agency force. Money spent for training, supervision and elimination of unfit agents really falls into this category. It is necessary to provide incentive in accord with the company's objectives. The old system was to let the agent build his job around the commission scale but the tendency now is to pay him for what management wants

him to do.

He mentioned six points to consider from the company angle: (1) an adequate volume of new business (compensation on immediate or deferred basis); (2) persistency (high or low renewals, bonus and pension plans); (3) service, a point on which there is the greatest divergency, some feeling that this is largely routine and could be handled elsewhere than by the agent; (4) competitive, also making things easier for the new agent; (5) costs, in which overhead also is involved; (6) simplicity ease and minimum expense of administration.

Three major consideration which effect the agent are: (1) stability, of employment and earnings, which can be enhanced by adoption of the right plan (group insurance for agents was mentioned in this connection); (2) retirement, now provided for by the majority of life companies, and (3) adequacy of income (elimination of unsuccessful agents would provide greater reward for the successful ones).

Mr. Scholefield did not offer or advocate any of the plans used for compensation of agents, merely pointing out the objectives that must be sought, whatever plan is adopted. No one plan is a panacea, he said, and he declared that there is need for examining the part agents compensation plays in the whole scheme of agency management. The companies should know more about the agent's job-selling, servicing, prospecting. He referred to what the life companies are doing in that connection and some of the points brought out by studies conducted by Life Agency Management Assn.

He emphasized that the interest of the policyholders must be considered first and said that ultimately it will be found to be also the interest of the agent and the company, even though it may not seem so at first. The agency plan is the only one that will give the public the protection it needs.

Belknap Discusses Training

Raymond H. Belknap, Occidental Life, who is chairman of the recently established accident and health committee of L.I.A.M.A., handled the training topic. As a member of the industry advisory committee in connection with the training requirements under a new California law, he said replies to preliminary questionnaires showed that only 50% of the conference companies operating in California have any training program. He declared that an amendment to the constitution of the conference ought to be adopted providing that after one or two years no company could continue as a member of the conference which does not have a field training course.

As to the type of training that should be given, he said that very generally in the courses now being given the emphasis is all on how to sell, with scarcely anything on what the companies have to sell. Very frequently the agents do not understand what it is they are selling. He said they should sell fundamentals, not sideshows. In connection with proposals in some governmental schemes for reimbursement for teeth or eyeglasses, he said accident and health insurance should cover the hazard of catastrophe, not maintenance service. An automobile policy covers damage caused by an accident, not replacement of worn parts. Accident and health insurance should provide for keeping the family together and adequate replacement of income.

It is necessary to accomplish a meeting of minds with the public, which he

said hasn't been done, it also is necessary for a company and its agents to have a meeting of minds. Actuaries and top management should make it easier to train agents by standardizing their own coverages. In life insurance all policies have the same insuring clause, the same settlement options, in an auto policy the same wording is used in writing a Cadillac and a Ford and without regard to whether it provides high or low limits.

He cited variations in different policies of the same company, as shown by



R. H. BELKNAP

an examination of a number of companies' forms, one company has three kinds of insuring clause; another has three different times when the insurance becomes effective; still another has three variations on double indemnity. He found that his own company has one policy which does not pay for venereal disease, while all of the others do. You can't blame the agent if he happens to make a mistake in a case of that kind, Mr. Belknap said.

This condition makes it difficult for an agency department to teach men. There are really only two courses for an agent to take—he can become a package salesman and concentrate on one policy, without regard to whether it is what his prospect needs, or he can try to do some programming and unintentionally misrepresent some feature of a policy because it is virtually impossible for him to know just how they all differ.

The agent should sell needs rather than price and to do that he must know not only what is in the policy but why it is here. That is the only way, Mr. Belknap said, to sell intelligently and without a kickback.

The talks had to be shortened greatly as the speaker at the general session preceding far overran his time.

Upward Trend in Franchise Business in Recent Years

The importance of franchise accident and health insurance is exemplified by the upward trend of such business during recent years. P. G. Korn, National Casualty, declared in his report as chairman of the franchise committee. Efforts to ascertain the volume of franchise premiums written in 1947 were unsuccessful but the reports that were received showed that companies which have been writing franchise business for some time are showing a steady increase; those entering the field within the past few years have built a commendable premium volume, but a very large portion of the franchise business written is still written by a very few companies. This may be accounted for by reason of the fact that those compa-

(CONTINUED ON PAGE 13)



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Better Selection, Training of Agents Bring Prestige

Management in general is concerned about prestige, good will and good public relations, Roswell C. Laub, vice-president and director of agencies of Monarch Life, told the agency management session. He therefore took up some of the things that must be faced, sooner or later, when a company by recruiting and selecting quality salesmen sets out to build the type of sales organization that will in turn build prestige and good public relations for both the company and the health and accident industry. One primary question is whether they are willing to pay the price, either in the actual additional cost or in the acceptance of the heavy responsibility that it places on home office management.



R. C. Laub

the men direct. Monarch believes in the latter method. It considers it difficult to get general agents who are good salesmen, good executives, good leaders of men, hard hitting, energetic individuals and who at the same time have the pedagogical qualities that would make them good teachers. "There are a few such individuals but they are rather rare," Mr. Laub said. "Therefore, it is necessary to make a choice. Do we want a general agent who is a good general agent with his eye on management and production, or do we want a general agent who is a good teacher but a poor general agent?"

Plans for Training Described

He outlined the company plans for operation of its training schools in considerable detail. It also has reduced to writing a field training procedure for new men which was built to coordinate the training which the men receive at the Monarch college with field work. This is standard practice for all agencies but in spite of that, "it is still one

of the weakest spots in our program," Mr. Laub said. "General agents as a class just don't like the job of training new men and no matter how carefully you work out a training program,—whether teaching fundamentals and theory in an office or field training—they will neglect the training end of their job in favor of other things that to them seem more pressing or are more interesting or more satisfying to their ego."

There is a company supported finance plan for new men which is an incentive plan based on effort. It pays a certain fixed amount per interview depending on the man's closing ratio, a varying bonus for each sale depending upon the size of the sale as well as a bonus for getting cash with the application. The amounts payable reduce one-third at the end of four months, another third at the end of the next three months and go off entirely at the end of 10 months. Since bonus earnings under the finance plan are in direct proportion to effort and production, renewal income on business sold increases in about the same ratio that income under the finance plan decreases so that there is no "financial shock" when the finance plan expires in the 11th month.

He mentioned two phases of his company's plan of management which he

said help materially in building quality field organization:

"1. We do not accept brokerage business on our health and accident line, and therefore we do not encourage competition against our own men.

"2. We do not accept or attempt to write these illegitimate association group cases. In fact we deplore the present abuse and prostitution of the group insurance idea. Group insurance has its place but sound underwriting and sound management dictate that the employer-employee relationship should exist. We are confident that this present tendency to treat all classes of people as if they needed and were able to buy only mass protection will boomerang on the industry and return to plague us.

"Those who are writing this faked group insurance on various types of associations try to justify their actions on the grounds that the industry must cover the masses. However, I submit that doctors, dentists, lawyers, accountants and executives can hardly be classed with the underprivileged who need mass coverage. I further submit that men of this type who fall in the high income brackets are the very people who need and should have personalized service. If this mass coverage idea continues to expand among the

(CONTINUED ON PAGE 13)

Quality Salesmen

In defining a "quality salesman," Mr. Laub said he is not necessarily the biggest producer; and by the same token the biggest producer is not necessarily the man who will build prestige for the company or for the industry. He listed as essential attributes integrity—with emphasis on intellectual honesty, character, above average mental ability, good personality and good appearance, a high sense of responsibility, and ambition—with high aggressiveness and high stability ratings.

To find men with these characteristics, first of all the home office agency department must be 100% sold on the idea. It must then sell the idea to the general agents and see that the general agents follow through; they must be thoroughly taught what the home office means by quality selection and then taught how and where to find such men.

It is very difficult to get general agents to see this picture in its true light, Mr. Laub said. When they are under pressure to get new men, they are likely to lower their standards of selection and drift right back to the old habit of hiring anybody who can carry a rate book and talk to people. "They should know from experience that this will cost them money in the long run but they are so anxious to put on another man that they lose sight of the ultimate results."

Develop Definite Procedure

He said it is also necessary to develop a definitized recruiting procedure and vocational guidance test. The salesman can't build prestige for his company or for the industry unless he stays in the business and is a successful, career insurance man. To build a quality organization, these quality men must be properly and thoroughly trained; they must be given financial assistance for at least the first year and they must have proper and continuous supervision.

"When we recruit a quality man we usually take him away from another job and unless company management and the general agent are willing to accept their full share of the responsibility for making that man a success, we cannot justify our position with him or his family and we have but little right to talk about careful recruiting and quality selection."

Mr. Laub outlined in some detail the agency management pattern developed by his company, with especial reference to the "Monarch college." There are two schools of thought about training, one proposing to train the trainer, meaning in the general agent or manager, and let him train the men; the other to train

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Possibilities Beyond Catastrophe Level Explored by Medical Group

Possibilities in the field beyond the "catastrophe" coverage level were discussed in the report of the medical committee. William Washburne, American Health, is chairman.

The committee report notes that in lieu of a definition of medical insurance, it has adopted the term "catastrophe expense coverage" for medical which does not go beyond surgical-obstetrical. Surgical-obstetrical cover has passed the experimental stage, the report notes, and the industry took hold in that field ahead of the non-profit companies and government schemes.

The report was mostly confined to a discussion of physicians' fee expense for home or office calls. This is a relatively new field and there is little data on it. The early experience appears to be satisfactory, and a large total exposure is accumulating.

In-hospital physician fee coverage has been written for several years, with uniformly satisfactory experience from the start. The committee states that this form also has passed the experimental period and can be underwritten with confidence along with the hospital coverage.

Physician's fees when incurred in the home or doctor's office present a different picture and discussion has brought forth divergent viewpoints. Experience so far has been good, but some group companies report a tendency for the claim ratio to increase in the second and subsequent years, probably because of growing awareness by employees of the ease of making claims. A few companies are writing individuals direct on a blanket expense basis, and claims in that line have been complicated sometimes by the tendency of physicians to indulge in bill

padding with the policy apparently regarded as a blank check. The bulk of home and office call cover so far has been on a specified fee for call basis, usually with the first two or three calls for treatment eliminated, and with total disability required.

The present status of demand for coverage beyond the "catastrophe" level is not clear, the report declares. Companies writing the line in connection with other coverages report it is difficult to sell without substantial contribution by the employer. When employees pay all they usually select against that coverage in favor of loss of time indemnity or some other phase of package protection. The effective demand so far has been generated by unions or paternalistic employers.

Some difference of opinion is shown in the desirability of cooperating with the medical profession in offering physician fee coverage as well as in the surgical-obstetrical line. The committee has completed a survey on that question, and half of the companies replying state they believe there is a demand and need for coverage beyond the catastrophe level. Some companies state there is no particular need as such, but that a small demand already exists. A few say that the need is there, but has not arisen because the public does not know such protection is available. More than half of the companies are willing to participate in the development of uniform plans for sponsorship along with medical associations.

The committee presented a table showing companies interested in working with the doctors to evolve medical insurance plans. It is presented herewith.

Plan	Solicitation	No. of Companies	Surplus	1947 Premiums
Surgical-obstetrical and in-hospital medical	Group	30	140,217,165	121,160,808
	Franchise	30	134,978,380	126,753,593
	Direct	37	147,966,147	141,803,668
Surgical-obstetrical, and physician fee expense in hospital, home or office	Group	20	91,576,283	100,201,777
	Franchise	20	77,222,749	99,713,482
	Direct	26	86,018,363	114,872,557

Tell Public A. & H. Is Doing Good Job

Speaking on "Building Good Will Can Be Profitable" in a forum discussion of how greater good will can be created for accident and health insurance as an institution, E. J. Faulkner, Woodmen Accident, said that if the business has failed to measure up to its public relations opportunity on any score, it has been on failing to let the people know about what kind of a job it is doing.

Commenting especially on the attitude of management in that connection, he said his company has found it worthwhile to spell out for the members of its field organization, its home office staff, its policyholders—in short, everyone who is interested, not only the company's program, goals and aspirations, but its attitude on the broader problems that concern the society and economy of which it is a part.

"We believe that such an attitude is profitable because it stimulates confidence in our institution," he said. "There is no phase of our operation which can be classified as 'secret,' 'confidential,' or 'restricted.' We believe that the policyholders, agents and home office staff, as cooperating members of the team, have the right to know about anything that affects their company and that management has an obligation to inform them."

At agency conferences held in each

state at least once a year, the management asks for frank criticism, comment and question. Such matters as compulsory insurance, agents' remuneration, officers' compensation, the reasons for rates and benefits have all been brought up and discussed with clarity and candor.

Much Progress Has Been Made

While the record of the business has not been perfect, he said the important thing is whether it is making progress. "Without question accident and sickness insurance, as written by private insurance carriers, is for the overwhelming majority of Americans the one best way of protecting themselves against the financial consequences of disability," he said. "If that business is trending in the right direction, if it has shown a sincere and continuing desire to improve the caliber of its service, if its attitude toward its responsibility has been wholesome and in the public interest, then it should cause no particular concern that the millennium has not yet arrived."

He spoke of the progress that has been made in such matters as the quality of the coverage offered, the type of field representation supported by the companies, or the claim practices of the insurers. Today's policy forms bear little resemblance to the technically worded and narrowly-restrictive contracts which were characteristic of the business in its early days. The agents who carry the message of accident and health insurance to the buying public today are increasingly full-time career men who view their work as a truly professional calling, as contrasted with the



E. J. Faulkner

insurance "peddling" that prevailed, not only in this field, but in most branches of insurance not many decades ago.

"Hand in hand with and because of these progressive developments has come a wide public acceptance of accident and health insurance. Each one of the trends enumerated has made new friends and helped cement old ones for the business. Can anyone question that building good will by maintaining a progressive and enlightened attitude has been profitable?" he asked.

The increasing public acceptance of accident and health insurance, Mr. Faulkner said, has coincided with the development of a trustee attitude on the part of management. He urged the cultivation of this trustee point of view by the men who determine policy and administer the business.

"This business is a sound bastion of democracy and of the free enterprise system," he declared. "It will continue to grow and prosper as management keeps always to the fore the interest of the policyholder and then spells out that attitude in such a way as to leave no questions about the philosophy of our business."

Few of Supposed "Hot" Topics at Issue in Decisions

The subjects that are talked about so much at meetings with insurance commissioners are conspicuously absent in court cases dealing with accident and health insurance, C. C. Fraizer, conference general counsel, commented in his summary of such decisions handed down in the past year. The number of cases involving technical defenses on the part of companies is almost nil, he said.



C. C. Fraizer

"I do not find a single health and accident case that would likely have been affected one way or the other on the merits by the inclusion of an incontestable clause in the policy. Nor do I find any reported case, the decision in which would be substantially affected by the presence or absence of a grace period for the payment of premiums. The 'brief description' upon which subject we spend so much time in commissioners' committee meetings, is not even referred to in a single reported case."

The "house confining" clause appears to have been involved only once. The statute of limitations and sufficiency of notice entered into hardly any cases. The standard provisions, as such, are seldom involved in the reported cases and the contents of the Official Guide

did not appear to enter into the cases to any extent worth mentioning.

The ugly word "fraud" entered into a few cases, Mr. Fraizer reported, but still not to an alarming extent. There was hardly a reported case where skulduggery on the part of a company was even suggested. Consequently, most of the litigation appears to have been defenses conducted in good faith by the companies with reasonable indication in most instances that there was a litigable doubt involved.

"There was one case where the court took an exclusion clause and turned it into an inclusion clause. Only one case came to my attention where a supposed policy ambiguity entered into the picture.

"The reported cases are largely concerned with the perplexing things which happen to the members of the human family, why they happen and how they happen. There is an unending parade of human weakness, error and some guile. Presumably these problems will continue until the end of time just as they have always been with the courts in the past. In part, they involve disputed questions of fact and more particularly involve the proper conclusions and inferences to be drawn from various factual situations.

"For instance, a very large number of the reported cases are concerned with the problem of what is accident and what is disease. A number of cases relate to the agent's authority, actual or implied. False or careless answers to questions in applications for health and accident insurance have led to some of the litigation. Sometimes, but not to any alarming extent, litigation arises through the fault of the company's own agent.

"I cannot discover that the past year disclosed any new or far-reaching rules of law handed down by the high courts. Nor can I discover any significant trend in the decisions. Rather the decisions appear to indicate that the courts have been grinding out judgments to settle uncertain and troublesome questions involved in individual cases.

"Some skeptics may say that the decisions of the appellate court are only a comparatively select few and do not reflect what is going on in the health and accident business generally. I believe, however, that informed people agree that the law of averages takes a cross-section of disputes and controversies to the high courts and that the appellate decisions represent a fair sampling of what goes on in the lower courts and in the claim departments of the companies. I think it is fair to say that an enormous number of controversies are settled by the companies with claimants on a satisfactory basis entirely out of court."

Commissioner Knowlton of New Hampshire, chairman of the N.A.I.C. accident and health committee, attended the San Francisco meeting, making the trip from Chicago on a train which carried a contingent of about 30 from the middle west.

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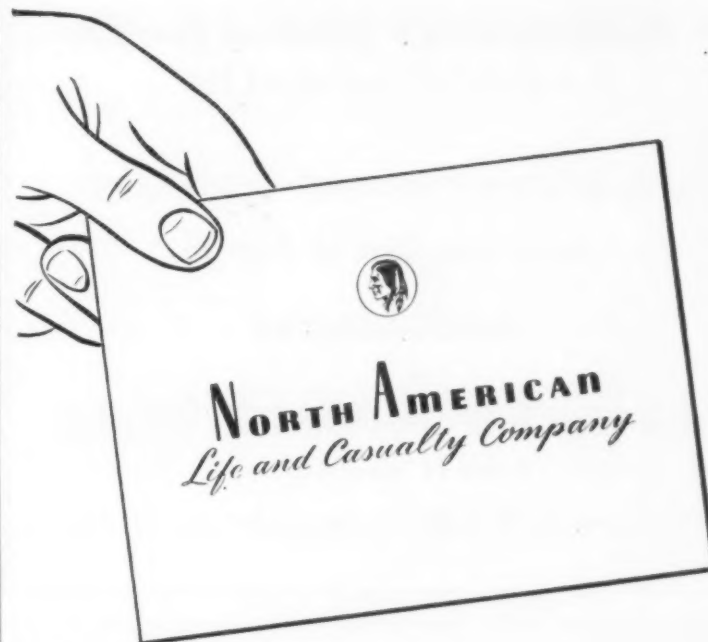
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"Regimented Confusion" Hit

(CONTINUED FROM PAGE 3)

His reply was: "No. Mr. Commissioner, it isn't more authority that you need. There is never a law drafted that won't make it just as difficult for you to administer. There is rarely a regulatory law enacted, even though it may in some degree accomplish its purpose, but that in some other way reacts against the public interest. You cannot legislate conscience into any industry and unfortunately there will always be some who will never have it, but let us through confidence in each other, let us in full cooperation between industry and the insurance departments endeavor to force on the offending company and not on an entire industry a degree of compliance not obtainable by any statute. Let that part of our industry that operates on a fair and just basis be not afraid to take a firm position. Appeasement is never an answer, it can only be a palliative."

Not a One-Way Street

He returned to the same general topic, in a discussion of public relations which he said is not a one-way street. "There is just as great an obligation on the part of the insurance departments to protect business as to protect the public. The only difference is that it is not as politically popular. We sit idly by and hear officials make statements publicly against our business, statements partly true but applicable to only a very small part of our industry and yet we permit those statements to sink into the public mind unrefuted because we have not properly assembled the true facts in such a way that they can be properly and carefully presented for public consumption."

"I have heard officials blast our industry because of the acts of a very few and yet fail to do anything about it because those few are so politically strong as to avoid it."

Apply Only to Minority

Just as the indictments against the industry apply to the few, Mr. Kemper emphasized that his comments also apply only to a few. It is always the minority that causes the most trouble. "The public are not burglars or robbers or murderers, and yet we must have laws to protect the public against unlawful acts. We must have laws, too, to protect against unfair selling, policies which do not give the public a fair amount of protection for the premium dollar and other vices, and believe me, they exist."

Mr. Kemper said that this meeting marked the end of another important milestone in conference history, and said it also marks an important era in California history, starting a three-year centennial celebration of the discovery of gold and the formation of California as a state.

"It is truly fitting that in an historical setting such as this, our deliberation should be stimulated by the courageous spirit of the pioneers," he said.

In reviewing developments of the year, he spoke especially of the effort to revise the standard provisions law, first adopted 37 years ago and paid a special tribute to Jarvis Farley, chairman of the standard provisions committee of the conference.

In the face of unfair criticism and accusations on the part of a few of the commissioners, he said, "this committee has continued believing there is a fair and just basis on which the conflicting interests within the industry and the various opinions of insurance commissioners can be resolved into as useful and valuable a document as did the drafting committee of 37 years ago."

Ralph H. Kastner, associate general counsel of American Life Convention, who addressed the conference at its Monday morning session, left immediately after the meeting for a trip to the Hawaiian Islands.

Wetterlund Speaks on Improving the Policies

(CONTINUED FROM PAGE 4)

stands the coverage granted in the policy and providing the policy contains as few restrictive clauses as possible. Then when the particular event insured against in those policies occurs the indemnity will be paid.

Opposes Floor of Protection

Referring to suggestions for the establishment of minimum benefits, he said, "I don't think it is possible to say that \$60 per month indemnity for example should be the minimum when the cost of living varies as it does between California and Mississippi or New York and South Carolina. Children, housewives, laborers and other types of risks may not be entitled to that much indemnity, or possibly cannot afford such a policy, or more important, may not be entitled to such a policy from a sound underwriting viewpoint, and the setting of a minimum which would deprive this type of risk from procuring some coverage is unsound. Some insurance is better than none. I think we can depend upon our underwriters and salesmen to try and provide protection in the proper amounts and to the persons who need it on a sound basis."

Expect Federal Changes in Plan for Taxing Companies

The report of the taxation committee, headed by John J. Temple, American Hospital-Medical, says no new legislation was passed the past year affecting accident and health premium taxes, except that in some instances, notably in Michigan, new legislation was enacted taxing foreign cooperative assessment companies. In all probability, it says some further study will be made under the direction of Congress to explore the possibility of taxing so-called non-profit associations writing hospitalization and accident and health insurance and also cooperative assessment associations which are now exempt from taxation.

May Change Income Tax

It also sees a strong probability that Congress may enact legislation which would affect the present basis of taxing life companies in writing accident and health. Under the present law, life companies pay tax on their interest income over and above the amount required to maintain the necessary reserves according to a formula which is written into the law. Life companies having accident and health departments pay the tax based on 3 3/4% of their unearned premium and claim reserves on cancellable health and accident premiums, in addition to what amount may be payable out of their interest earnings.

The decline in interest rates resulted in no tax whatsoever on business done by life companies in 1947, except those companies which have accident and health departments. It is expected that the present Congress will pass some legislation modifying the so-called life formula, and this may result in a change in the tax on the accident and health departments of life companies.

Entertainment for Ladies

The women's committee of the San Francisco group headed by Mrs. S. S. Battleson, whose husband is manager of West Coast Life, with Mrs. George W. Kemper as official hostess, was especially active in looking after the welfare and entertainment of the wives of company men, who were on hand in large numbers, and other women attending the convention.

The principal entertainment feature was a three hour tour Wednesday afternoon, with a luncheon at Lakeside Golf & Country Club.

Mrs. Battleson and Mrs. Kemper were given especial recognition at the Monday morning session.

Downey, Arrington Share Spotlight

(CONTINUED FROM PAGE 3)

Full utilization of the authority conferred on the commissioners by laws already on the books could eliminate most of the claimed abuses. He spoke of the efforts of the federal government to reform bad practices involving use of the mails, including the recent indictment of a small Illinois company and its officers, but said that many of the practices complained of are not federal offenses and must be corrected by the state departments if at all. He particularly commended the job of policing domestic companies being done in Iowa and Connecticut.

He declared that the accident and health industry as a whole is opposed to freezing into statutory language either standard minimum benefit provisions or any sort of uniform policy in order to impede the operation of the comparatively few illegitimate companies in the business. He said that it is impossible and will only impede legitimate companies in providing coverage desired by the public.

Miami Meeting Low Point

He reviewed the status of relations with insurance departments over a considerable period of years, mentioning some of the things undertaken by the industry at the instance of the commissioners, including the claim surveys made by the conference, which refuted charges made at commissioners' meetings, and the code of principles in regard to advertising in Illinois. He also took up developments following the "insurance is commerce" decision and the preparation of legislation in cooperation with the commissioners. He said the peak in the relationship between the departments and the industry was reached at the N.A.I.C. Grand Rapids meeting in 1945 and the low point at the Miami meeting last December, when he said the good faith of the accident and health industry in presenting its recommendations was questioned, and those recommendations rejected without further opportunity to present the industry point of view.

The resentment created by that action

was responsible, he said, for the action of the company men in sitting quiet throughout the first day of the recent minimum benefits subcommittee hearing except for registering complete disapproval. However, the fact that mutual agreement eventually was reached for study of the problems at issue by an industry committee, with the aid of department representatives, made it seem that there was a good chance of the congenial relations existing in 1945 being restored.

Industry Assistance Essential

There is now a good prospect for a cooperative working together, but this can be done, Mr. Arrington said, only if the problems of the industry are studied intelligently and the departments recognize their importance in the development of good will between the industry and the insuring public.

Assistance from the industry, he declared, represents the most potent but as yet least used force the departments have available to correct faults in the industry. "Our views in all events are to be entitled to a presumption that they are seriously inspired and are proper subject matter for thoughtful and serious consideration. Industry pledges the full resources of its talents genuinely to assist and in many cases even to take the lead in eliminating or alleviating the problems confronting the state departments."

The vigorous and continued applause at the conclusion of Mr. Arrington's talk gave ample evidence that it met with the approval of those in attendance.

The working out of the California UCD plan also was reviewed at that session by T. H. Mugford, deputy director of employment, particularly with reference to the operations of private plans, covered by insurance companies. He held that the satisfactory way in which it has worked out demonstrated its superiority to a monopolistic plan and affords an outstanding example of government and private industry working together effectively for the good of the people both are serving.

V. J. Skutt Now at Helm of Conference

(CONTINUED FROM PAGE 3)

tions in the central west, where probably the majority of the conference companies are domiciled.

The San Francisco people, spark-plugged, of course, by George W. Kemper, Fireman's Fund Indemnity, who has been in the center of things throughout the year in spite of his geographical location, received many plaudits for their handling of the convention.

V. J. Skutt, the new president, has been vice-president of United Benefit Life since 1936 and home office counsel of Mutual Benefit Health & Accident

since 1930. Previously he had been in general law practice. He was on the conference executive committee for several years before his election as chairman of that committee last year. He has served as chairman of the insurance section of the American Bar Assn. and as chairman of the Legal Section of American Life Convention.

Frank L. Harrington, who was elected chairman of the executive committee and was thus put in line for the presidency next year, is president of Massachusetts Protective and Paul Revere

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Life. He is a native of Worcester, Mass., where those companies are domiciled and was educated at Phillips Exeter Academy, Dartmouth College, and Harvard law school. In 1929, after practicing law in Boston, he joined Massachusetts Protective of which his grandfather was one of the founders in 1895. He was vice-president and counsel at the time of his election as president in 1945 to succeed his uncle, Charles A. Harrington, who became chairman. Mr. Harrington has served on the executive committee for a number of years and has long been active in conference affairs.

Gavel Presented to Kemper

At the opening of the first session, G. A. L'Estrange, Wisconsin National Life, presented to President Kemper a gavel which had been made by Harold R. Gordon, conference executive secretary.

Mayor Robinson of San Francisco gave the initial address of welcome. Francis V. Keesling, president of West Coast Life, reviewed the history of California and its insurance companies. While stating that he is not a pessimist he said payments far out of line with present day conditions are being made and it is a condition that must be watched. He said that while there may be places where the government must intrude, it is a very limited area.

Maynard Garrison, vice-president of the Fireman's Fund companies, former California commissioner, said every company must prepare to meet the challenges of the day, including the expiration of the moratorium under P. L. 15. He expressed the belief that the conference has the setup to help them meet these challenges.

Criticism of Commissioners

President Kemper in his address reviewed the developments of the year, with especial reference to relations with insurance departments.

Harold R. Gordon, managing director, in his report covered the wide variety of problems that have come up during the year.

Mr. Gordon stressed the tremendous growth in the amount of voluntary insurance now in force, which he said has caused despair among the proponents of compulsory government insurance. At the National Health Assembly, which he attended, he said they were dumbfounded at the amount of such insurance now being sold.

N. H. Commissioner Heard

Donald R. Knowlton, New Hampshire commissioner, chairman of the N.A.I.C. accident and health committee, expressed his appreciation of the cooperation of the conference and particularly the assistance given by Harold Gordon. He said the extent of this cooperation was really astounding in view of the fact that some proposals have been advanced, which are new and "a little rugged."

In connection with the criticism by President Kemper of some insurance department practices, he said he thought it was "good for the soul" and that it might have been a good thing if all of the commissioners had been present to hear it. He said he was particularly glad to be able to attend the conference meeting as knowledge of industry problems will help him to do his own job better.

Ralph H. Kastner, associate general counsel of American Life Convention, the closing speaker at that session, took up the subject of public relations, the general theme of the convention, stressing the need for elimination of the "caveat emptor" idea.

Two Sessions Tuesday Morning

Following a public relations talk Tuesday morning by James Mussatti, general manager California State Chamber of Commerce, simultaneous agency management and group insurance sessions were held, speakers at the former being R. C. Laub, Monarch Life; R. H. Belknap, Occidental Life, and J. E.

Scholefield, North American Life & Casualty, with the afternoon devoted to a boat trip around San Francisco Bay.

An executive session was held Wednesday morning and in the afternoon a forum on improving public acceptance of the business, participants being V. J. Skutt, Mutual Benefit Health & Accident; W. G. Gastil, Connecticut General Life, Los Angeles; R. J. Wetterlund, Washington National; and E. J. Faulkner, Woodmen Accident.

The banquet was held Wednesday night, preceded by a reception tendered by Fireman's Fund and West Coast Life, and another executive session Thursday morning concluded the convention.

Due to the increasingly important place which group insurance is taking in the accident and health field a special group section of the Conference is likely to be organized in the near future. The plans under consideration contemplate a setup similar to that of the Medical Section of American Life Convention with officers of its own and separate meetings, but continuing as a unit of the Conference. The matter was discussed at the group session Tuesday, but due to the fact that it would involve an amendment to the constitution of the Conference no definite action was taken at this time.

Three Vice-Chairmen

One change in the organizational structure was made, however, with the decision to have three vice-chairmen for industrial group, association group and franchise. Problems of franchise business which heretofore have been handled by a separate committee now will come under the jurisdiction of the group committee. A group meeting will be held probably in the fall. There was some discussion of having such meetings just before or after the annual or mid-year meetings of the Conference, but that was regarded as impractical.

Chairman J. E. Hellgren, Lumbermens Mutual Casualty, presided at the group session. In reporting for the group committee, he stressed the steady increase in the number of companies in the group disability field. This fact is partly responsible for the growing popularity of group insurance together with union pressure for group plans and the pressure of laws passed or proposed making group accident and health plans compulsory. As more people become insured, the less ammunition there is for proponents of compulsory insurance. The insurance industry must do the job, not the government, whether state or federal, Mr. Hellgren said. But that means more careful study and more intelligent guidance. He emphasized the desirability of a standard definition of group accident and health insurance.

Cal. Plan Is Discussed

There was considerable discussion of the California UCD plan particularly in connection with the report of its operations given by T. H. Mugford, deputy director in his talk the previous day. While loss ratios are still low an increase in that respect was quite generally predicted. It was pointed out that the loss ratio cited by Mr. Mugford was for pure losses with no provision for reserves.

The other topic which seemed to attract the greatest interest was that of medical coverage including both the medical care plans sponsored by medical societies and coverage for doctors' calls under group plans. The experience on that line was reported to be very good and it was stated that some companies now are writing it for dependents.

George W. Kemper, conference president, and Mrs. Kemper entertained some of the early arrivals at a cocktail party at their home Sunday afternoon.

San Francisco's old-time cable cars were a source of interest and amusement to many of the visitors. One of the cable lines runs directly past the convention hotel.

Gordon Speaks Out on "Appeasement"

(CONTINUED FROM PAGE 5)

from "growing pains" and sometimes acquires conditions which only careful readjustment can remedy.

"It is impossible in a garden as fruitful as the accident and health business is today to avoid some weed growth that, if not actually retarding the quantity and size of the good things that should come from a well-kept garden, at least look repugnant to a good gardener. But instead of using a mowing machine or a plow and destroying the entire crop, let us proceed with diligence to cultivate this rapidly growing garden and eliminate each year not only the weeds which are bound to appear but to attack the source of weed growth. In other words, let us vigorously proceed with a program of weed control.

"I deplore those rabble rousers or publicity seekers who constantly arise and shout about the shortcomings of the few companies and few persons in this great business of ours. Inevitably they overlook the wonderful job which has been done, and always ignore the actual accomplishments and results so redundant of good will."

Reporting of Experience Not Opposed

He reviewed the revision of standard provisions, application of the Official Guide to old policy forms, reporting of experience on policy forms and other similar problems. He said the conference never has opposed a reasonable and practical method of compiling loss and expense experience on accident and health business, and expressed the hope that a uniform blank can be adopted by the accident and health committee in June to accomplish the results desired by insurance departments on a basis practical for all companies.

Mr. Gordon said that the relations of the conference with all insurance departments have been most cordial, pleasant and cooperative and "that there is not a single insurance department in the United States unwilling to cooperate with industry and do a job to the best of their ability and with a degree of effort commensurate with limitations which sometimes handicap even the best managed supervisory offices."

He said, however, that a need was felt for closer and more intimate contact with department heads and other members of insurance departments who are either new or not so well acquainted with the accident and health business. To meet that need, it was decided to direct an informal, educational and factual bulletin to department personnel who might be interested in knowing more about the business, and in keeping better informed as to trends and new developments. It was overwhelmingly approved by insurance departments and more than 700 copies of each bulletin are now being distributed. The demand for it has put it on a permanent basis and much of the material will be edited later and put in a permanent, bound form.

Another new bulletin service inaugurated is that on public relations, which has become one of the major activities of the conference. It is handled by James R. Williams, who is in charge of public relations work in addition to his publicity and editorial duties.

Mr. Gordon strongly endorsed the idea of forming a group section within the conference, which was taken up at the group round table session Tuesday.

Better Selection, Training of Agents Bring Prestige

(CONTINUED FROM PAGE 7)

high income groups as it has in the past few years, it will undoubtedly spell the death knell for the agency system in America.

"The day that the agency system

ceases to be the virile and potent force that it is and has been in the insurance industry, we shall lose the only sound logical reason for the existence of private insurance. Private insurance is built upon service to the public. Salesmen cannot give service to the public unless they can make a living while they are doing it, and if we are going to distribute our services to those in the highest income brackets upon the basis of mass coverage through brokers, salaried home office employees or by fair means or foul, there will be little need for the individual salesman and little opportunity for him to make a good living in our business."

Upward Trend in Franchise Business

(CONTINUED FROM PAGE 6)

nies have well organized franchise departments with highly trained personnel who are actually specialists in handling and selling franchise business.

Mr. Korn said the franchise plan is nothing new. Several companies have been selling factory and railroad employees accident and health insurance on a payroll deduction basis for 30 or 40 years. However some 10 or 12 years ago a few companies revived the franchise plan of selling and applied it to small concerns and business units with five or more employees. Their success attracted others and today he said there are at least 100 or more companies writing franchise business in one form or another.

He defined franchise selling as principally a merchandising method of selling accident and health insurance on a mass or collective basis. Some companies prefer to call it "wholesale," "collective selling" or "organizational selling." Originally and until rather recently franchise business was promoted and sold quite loosely and without any definite underwriting procedure. In some instances franchise insurance was sold as true group insurance and this practice created dissatisfaction and complaints. The prominence of franchise business and its problems soon became an issue with insurance departments.

Soon after franchise business became a prominent segment of the accident and

health industry, the conference established a franchise committee to study and analyze the franchise business and its problems. The franchise committee were largely responsible for convincing the insurance departments that there was a definite need for franchise insurance plans and initiating a definition of franchise insurance, which was approved by National Assn. of Insurance Commissioners, adopted by many departments and in some states enacted into law.

The past year the franchise committee conducted two franchise forums which were very well attended and

brought out the wide interest of the companies in that class of business. At the most recent one it was brought out that the companies which enjoyed the greatest success with franchise insurance and built the larger premiums volume had well trained personnel who are actually specialists in the promotion of franchise business.

J. F. Follmann, Jr., manager of Bureau of Accident & Health Underwriters, and Lee N. Parker, president of American Service Bureau, were introduced at the opening session.

WE are proud to be a part of the great Accident and Health insurance business—and equally proud of our contribution to its remarkable growth during the past decade. Working together with our friends in the industry, thru the Health and Accident Underwriters Conference and similar organizations, we look forward to increased opportunities for service to the insuring public.



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Forecasts Lowering of Cal. UCD Fund Employee Tax

Experience Excellent.
State-Company Relations
Smooth, Mugford Says

T. H. Mugford, deputy director of the California department of employment, reported that after a year and a half's experience under the California unemployment compensation disability plan, the state fund has been so successful that if present trends continue the 1% wage tax on the employee will undoubtedly be reduced by legislative action.

Mr. Mugford reported that from Dec. 1, 1946 to March 31, 1948, income to the state fund was \$62,548,365, administrative expenditures were \$2,514,109 and benefit payments were \$22,706,721. Disbursements were 40.3% of income, but this ratio has increased in recent months to 53% for the three months ending in March. The fund is abundantly solvent, he said, having total reserves of \$171,580,191. Some 200,000 have been paid benefits.

Mr. Mugford commented that the volume in voluntary plans has continued to grow and as of March 31, there were 9,782 such plans in effect covering 717,317 employees or about one-third of the covered work force. "There has been a smooth and harmonious sharing of coverage between insurers, employers and the state," he declared. "We have good proof of the absence of adverse selection against the disability fund. The aggregate of claims among the voluntary plan has been greater than the claims against the disability fund. The sharing of premiums has been closely in relation to the payrolls under the two types of coverage."

Mr. Mugford termed the California disability business an outstanding example of government and private industry working together effectively for the good of the people. He said that the state administrators profited by association with the insurance people and have learned a lot which they would miss under a state monopoly system.

He commented that perhaps the experience is too short to determine whether contributions should be reduced, or whether there should be some addition to benefits or a combination of both adjustments. He said it was recognized that the experience has been during a period of high payroll levels and there have been no unusually heavy epidemics. He thought some adjustment would likely be made before long even with consideration of these factors.

Mr. Mugford expressed the belief that improvements can still be made in some of the technical provisions of the law to eliminate unessential paper work and to bring fund practice more in line with group insurance methods.

Action on Zone 4 Reports Still May Be Modified

The report of the statistical committee, headed by T. Loyal Anderson, Federal Life, dealt mainly with the issue created by the zone 4 proposal to require companies to file loss experience on accident and health business by policy forms, which was adopted by N.A.I.C.

The report refers to the recent action of the N.A.I.C. blanks committee providing for reporting this experience as a supplement to the statement. It says

that format of the report is to be determined by the accident and health committee at the N.A.I.C. June meeting, and that this apparently will necessitate a reconsideration of the action already taken by the commissioners.

The three major objections to the proposal, which were overruled by the commissioners, were:

(1) Because of competitive conditions within the industry, the companies were averse to having such information made a matter of public record.

(2) There has been no uniformity among companies as respects the method of compiling and collating the statistical data. Very few insurers have kept experience on a premium earned and loss incurred basis and it would involve, for many companies, a tremendous amount of work to obtain this information on older forms of policies.

(3) Even in the post-war years, it has been difficult to obtain sufficient and competent office workers. As a result, statistical departments in particular are understaffed and the demands of the commissioners might prove impossible of fulfillment.

Banish "Caveat Emptor" Idea, R. H. Kastner Urges

Speaking on "Our Responsibilities," Ralph H. Kastner, associate general



R. H. Kastner

counsel of American Life Convention, extended greetings from that organization, mentioning that 47 conference companies are also members of A.L.C. and citing Harold Gordon's estimate that 70% of accident and health premiums are received by life companies. Looking at public relations from a lawyer's viewpoint, he suggested defining this sphere of activity "as being an effort to put as far behind us as possible" the old legal principle of "caveat emptor"—"let the buyer beware." He said that is true of public relations activities in the personal insurance field because the thing it has to sell—the insurance policy—is so technical in its nature that it is rarely, if ever, thoroughly understood by the public and, despite company training programs, possibly not always by its own salesmen in the field. "Thus, if we are to win public favor, we must ourselves assume the responsibility of not only dealing fairly with the public, but of leaning over backward in our efforts to do so."

Must Instill Complete Confidence

He said it is necessary to instill in the public mind complete confidence in the policy contracts offered and in the responsible company management behind these contracts. "We must convince the public that we regard it as our responsibility to see to it that the contracts offered provide the protection expected—in fact, even more than anticipated, if that be consistently possible."

The increasing tempo of life leaves little time for buyers to look carefully into every transaction they make that they have consistently turned away from sellers whom they felt unworthy of complete trust, even though such sellers really were offering good buys on a comparative price basis. But, for one reason or another, perhaps because the public has felt the need for such protection very deeply, accident and health policies have sold quite readily and too often without any real knowledge of their contents on the part of insured.

"It appears obvious that prospective insured have relied upon a feeling that the principle of caveat emptor has been generally discarded, and have assumed

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that this was inherently true in the health and accident insurance field. If we do not have an obligation to measure up to this faith in us on the part of the public, then I do not know what the meaning of the word 'responsibility' is. And if each and every one of our companies do not live up to this faith religiously, day in and day out, then I fear that favorable public opinion in the health and accident field will deteriorate, rather than improve. This precious asset of good will will have been dissipated."

He also spoke of the responsibility to aid in preserving the American system of free enterprise and that sound econ-

omy which is its concomitant. He expressed the belief that governmental health insurance projects have gained such headway as they have in this country, "solely because we have thus far failed, in part at least, to do the kind of thorough-going job needed in our efforts to discharge the first responsibility mentioned."

"Health and accident policies are sold to provide an umbrella for a rainy day," he said. "When that day comes, let us be sure that there are as few holes in the fabric as possible, and that the umbrella can be opened when the rain starts."

Reach Substantial Agreement on Standard Provisions

The report of the standard provisions committee, submitted by Chairman Jarvis Farley of Massachusetts Indemnity, said that the past year has seen substantial agreement on the major framework of a new sickness and accident insurance policy provision law. It brought the picture up to date with an outline of the matters considered at the most recent meeting with the commissioners' subcommittee on standard provisions.

The three most important changes were: (1) A rephrasing of the reinstatement provision (corresponding to present standard provision 3) to give specific recognition to conditional receipts for defaulted premiums accepted subject to subsequent approval or disapproval of an application for reinstatement; (2) a change in the time limit for filing suit (corresponding to present standard provision 14) from two years to three years following the time within which proof of loss is required to be filed; and (3) modification of the cancellation clause (corresponding to standard provision 18) to require five days notice of cancellation by the insurer.

Mr. Farley commented especially on the questions of incontestability, meaning the concept that after an initial period the company divests itself of the right to challenge the original validity of

the policy because of misstatements in the application, and limited defense of origin, meaning the concept that any disability commencing or loss incurred after an initial period is presumed to result from causes originating after the date of the policy. He said that the idea of such limitations is receiving general acceptance, but that there has been no general agreement as to the language in which they should be expressed.

The importance of clear and reasonable wording of such limitation provisions, he said, is illustrated by the confusion and conflict in life insurance incontestability cases, a number of which he cited. He said such confusion is not too serious in life insurance, where the moral hazard is relatively low and there can be only one claim on each policy, but the greater moral hazard associated with the disability risk, particularly the fact that the insured himself can benefit continuously and repeatedly by the occurrence of the insured event, makes it more important to retain that distinction for disability policies.

The committee expressed the hope that the companies will experiment with limitation provisions and recommended that these principles be considered in drafting any such provisions:

(1) That any such provision state specifically the respects in which the policy is to be incontestable rather than make a statement of general incontestability with certain respects withheld; that is, say "This policy shall be incontestable with respect to," etc., rather than "This policy shall be incontestable except for," etc.

(2) That phrases such as, "This policy shall be incontestable as regards the time of origin of any disability", be avoided because they tend to confuse the distinction between contesting a policy and contesting a claim in accordance with a provision of a valid policy.

(3) That any proposed use of the word "incontestable" be considered very carefully as to its effect on the distinction between contesting a policy and contesting a claim and as to its possible effect upon the insurer's option to cancel or terminate the policy.

Mr. Farley said the subcommittee apparently will try to crystallize its position on policy provision requirements before the commissioners' June meeting, but will ask at that meeting for further time to coordinate its work with the minimum benefits subcommittee and make a final report at the December meeting.

Pauley Managers' Speaker

A large number of conference leaders attended the luncheon of Accident & Health Managers Assn. of San Francisco Wednesday at which C. O. Pauley, secretary of Great Northern Life, was the principal speaker.

The Fireman's Fund film covering the salvage of the cargo of the "Diamond Knot," sunk in the strait of San Juan de Fuca, was shown.

Many Life Men on Hand

An especially large number of executives of life companies were on hand, many of them having stayed over following the Pacific Coast regional conference of American Life Convention. The first gathering of the sort ever held in San Francisco was this meeting.

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George Manzelmann, North American Accident; R. J. Wetterlund, Washington National, and E. A. McCord, Illinois Mutual Casualty, all former conference presidents.



S. J. Arcaris, O. T. Hogan and Jack Penrith, all of United of Chicago.



Harry J. Stewart, West Coast Life, convention general chairman; George W. Kemper, Fireman's Fund Indemnity, conference president, and Mayor Robinson of San Francisco, who gave the address of welcome.



W. Franklyn White, Mutual Benefit Life; Frank V. Cliff, Federal Life & Casualty; P. G. Korn, National Casualty.



AT WOMEN'S HEADQUARTERS. (Back), Mrs. Bernard Gribble, Omaha; Ruth Kuran, Omaha; Mrs. R. A. Teter, San Francisco; Mrs. G. V. Chandler, San Francisco. (Front), Mrs. S. S. Battleson, San Francisco, chairman women's committee; Mrs. George W. Kemper, convention hostess; Mrs. Lee N. Parker, Chicago.



H. L. Rietz, Lincoln National Life; James E. Powell, Provident Life & Accident; Frank L. Harrington, Massachusetts Protective; G. A. L'Estrange, Wisconsin National Life; H. O. Fishbach, Jr., Northern Life.

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